

HAITI  
POTABLE WATER AND SANITATION SECTOR REFORM AND INVESTMENT PROGRAM  
(HA-0014)

EXECUTIVE SUMMARY

BORROWER AND Republic of Haiti  
GUARANTOR:

EXECUTING Ministry of Public Works, Transport and AGENCIES: Communications (MTPTC)/Sector Reform Unit (SRU)

AMOUNT AND SOURCE: IDB/FSO: US\$45,000,000

IDB/MIF: US\$ 965,000 ICDF (Taipei, China): US\$10,000,000 Local counterpart funding: US\$ 5.000.000 Total: US\$60,965,000

FINANCIAL Amortization period: 40 years TERMS AND Disbursement period: 5 years

CONDITIONS: Interest rate: .1% first 10 years, 2% thereafter Inspection and supervision: 1%  
Credit fee: 0.5%

OBJECTIVES: The goal of the proposed Program *is* to improve and sustain potable water service across the country while establishing an institutional framework for the gradual development of waste water service.

The specific objectives of the proposed Program are therefore to: (i) support the establishment of the independent Potable Water and Sanitation (PWS) regulatory agency and the privatization of service provision in Port-au-Prince and other urban centers; and (ii) enhance and sustain the quality and coverage of potable water service *in* approximately *t~n* urban centers and fifty rural and peri-urban communities.

DESCRIPTION: The proposed Program will be a five-year multiple- works operation consisting of three components: an institutional component to support the implementation of the sector reform; an investment component to finance the rehabilitation and expansion of water systems; and a private sector participation component to finance part of the transaction costs involved in fostering private participation *in* the management of rehabilitated systems.

The reform imclementation comconent (US\$1,515,000) will finance technical assistance to: (a) finalize the regulatory framework; (b) help establish the regulatory agency (to be known as CREPA); (c) help

regulatory agency (to be known as CREPA); (c) help strengthen the environmental capacity of the sector's institutions; (d) finalize the Government's investment *policy* and establish public sector capital expenditure mechanisms for the sector; and (e) help restructure and merge the two existing potable water public utilities into one entity (to be known as ONEPA) .

Activities (a), (b) and (c) above aim at the establishment of a regulatory framework that facilitates private sector investment *in* the PWS sector, which *is* one of the priorities of the MIF Technical Cooperation Facility. It *is* therefore proposed that these activities be financed by the MIF.

The investment component will finance up to US\$48.45 million for the rehabilitation and expansion of potable water and sanitation infrastructure *in* urban, peri-urban and rural areas, according to pre-agreed eligibility criteria. The foremost criteria have to do with *ensuring* the institutional and financial sustainability of rehabilitated systems.

Urban projects will be financed through loans granted to project sponsors through a fiduciary fund administered by a private firm. A total of eight to ten urban projects (US\$39.1 million) benefiting about 400,000 people are expected to be financed. For each project, the following items will be eligible for financing: (i) the preparation of a potable water and sanitation master plan; (ii) institutional, technical, environmental and social, financial and economic feasibility studies; (iii) project appraisal; (iv) execution and supervision of works [rehabilitation/expansion of the potable water system + remedial drainage infrastructure + pilot waste water project]; (v) community outreach initiatives; (vi) institutional strengthening of the local PWS board; (vii) technical assistance to the service provider (except when the service provider *is* an international private company); and (viii) overall project evaluation.

Rural and peri-urban projects will be financed through a demand-driven grant system managed by ONEPA. A total of fifty small projects (US\$9.1 million) benefiting about 75,000 people are expected to be financed. For each small project, the following items will be eligible for financing: (i) pre-project community development activities leading

to the establishment/strengthening of a local water board; (ii) simple technical designs and financial analysis; (iii) the execution and supervision of works [potable water system + simple sanitation infrastructure]; (iv) training of and technical assistance to the system's operator; and (v) project evaluation.

The private sector participation component (US\$5.5 million) aims at enabling the privatization of PWS operations in the capital city (and possibly other large urban centers) through a leasing/service contract. This component will finance three years of technical assistance to train ONEPA in the supervision of the private operator. It may also contribute up to US\$4 million to finance part of the operating deficit that the leasing/service contract is expected to generate over the initial years. Finally, this component will finance the implementation of a severance payment and retraining plan to help rationalize sector staffing.

RELATIONSHIP OF The Bank's strategy in Haiti revolves around two PROJECT IN BANK'S complementary objectives: the improvement of living COUNTRY AND conditions and the development of the productive SECTOR STRATEGY: economy. The present Program will essentially serve the first objective.

The Bank's sector strategy is to contribute to the restructuring of the institutional framework of the water sector, in order to shift from a set of uncoordinated, sub-sector specific water resources development strategies towards an integrated water resources preservation strategy. Within this new approach, the proposed operation aims at improving the efficiency of the potable water and sanitation sub-sector. Because of (i) the urgency to improve potable water services and (ii) the present non-existence of an institutional framework for sanitation services, the proposed operation focuses deliberately on potable water services. As part of the reform to be implemented with support from this operation, however, it is proposed to initiate a major move to organize and develop sanitation services.

ENVIRONMENTAL AND The Committee on Environment and Social Impact SOCIAL REVIEW: approved the Environmental and Social Impact Report together with the Program's Environmental Impact Assessment at its meeting of July 11, 1997 (see paragraphs 4.27 and 4.28). This report was subsequently sent to the PIC on July, 18, 1997.

**BENEFITS:** The potable water sector reform is expected to produce even greater benefits than the investments in physical works. Through increased pricing and management efficiencies, reform will create momentum for further expansion, bringing the proper incentive structure to reduce physical losses, wasteful consumption and commercial losses. The result will generate the necessary revenue stream to finance maintenance; cause present water losses to be converted into surplus water for new consumers; defer investments for rehabilitation and expansion due to premature deterioration and excess demand; and release funds to expand coverage to new consumers. Loan repayment by users to the Government will allow public funds absorbed by sector subsidies to be released to meet other needs.

Physical works will improve access to potable water for about 400,000 people in urban areas and 75,000 in rural areas. This will translate into increased consumption benefits for groups with house connections and resource savings for low income groups whose consumption remains low but for whom the price of water drops significantly. From an environmental standpoint, the systematic introduction of micro-metering will be a significant first step towards a global strategy for water resources preservation.

**RISKS:** The main risks involved in the proposed operation are institutional; (1) at the global level, these risks relate to the capacity of the main institutional actors to develop ownership for and commitment to the proposed reform; (2) at the local level, they pertain to the capacity of municipalities and communities to internalize the new approach and assume its financial consequences.

(1) Ever since the return of the constitutional government in October 1994, Haiti has been asked to engage in a number of far-reaching structural reforms. While these reforms are a pre-requisite to restoring growth and eradicating poverty, they require a tremendous institutional capacity that the country simply does not have. It is therefore essential to conceive new ways to accompany the country through these reforms ~ building up its reform-implementation capacity. This is what this operation will attempt to do, by providing the newly established institutions an opportunity of learning by doing. (See paragraphs 4.30 to 4.32.)

been recruited to administer the urban projects fiduciary fund;

(c) before the signature of any works contract other than that for the first-year projects, the Borrower must present evidence that: (i) the main regulations pertaining to tariffs, service standard regulations, decentralization and private participation regulations have entered into effect; (ii) an institution has been created at the national level to conceive and implement integrated water resources management; and (iii) a contract for the management of the supply of potable water in the Port-au-Prince area, transferring all or part of the commercial risk to a private operator, has been signed; and

(d) before the first disbursement of resources corresponding to the private sector participation component, the Borrower must obtain the Bank's non-objection for Port-au-Prince's leasing/ service contract.

POVERTY-TARGETING The proposed Program is a poverty targeted investment AND SOCIAL SECTOR (PTI) as defined in document GN-1964-3 since an CLASSIFICATION: estimated 80% to 85% of Program benefits will be captured by households with income under the Bank's poverty level (see paragraph 4.18). Because it is expected that the Program will be cofinanced by ICDF, it is not anticipated to make use of the additional 10% of Bank financing allowed by paragraph 2.93 of the Eighth Replenishment document (AB-1704). However, should ICDF's expected financing not materialize, paragraph 2.93 of document AB-1704 would be applied and the total amount of Bank financing, unchanged in absolute terms, would now represent 90% of the Program's overall amount.

EXCEPTION TO None BANK'S POLICIES:

PROCUREMENT: Contracting of works and acquisition of goods and services will be governed by the Bank's procurement procedures. International ptililic bidding will be used to award works contracts in excess of US\$1 million and to purchase goods and services in excess of US\$350,000. For amounts below these thresholds, Haiti's procurement regulations will be applied and national public bidding will be organized.